

The United States Futures Trading Commission has issued the following consumer warning regarding foreign currency trading frauds. Additional information may be obtained from the CFTC's website at www.cftc.gov. Suspicious activities should be reported to the CFTC or to the office of the Hawaii Commissioner of Securities.



Investor Information

Foreign currency trading frauds

Have you ever been solicited to trade foreign currency contracts? If so, you need to know the difference between fraudulent and legitimate trading opportunities.

Financial markets are booming, and unfortunately, this boom means a corresponding rise in the numbers and types of financial fraud. Consumers need to take special care to protect themselves from financial fraud. Among the schemes being used to defraud the public are those involving so-called "foreign currency trading." While much foreign currency trading is legitimate, a form of foreign currency trading has been employed in recent years to defraud members of the public. Currency trading scams often attract customers through advertisements in local newspapers or radio or on Internet sites. Those advertisements may tout highly paid employment opportunities or high return, low risk investment opportunities in foreign currency trading.

The United States Futures Trading Commission (CFTC) investigates and brings action against firms suspected of illegally offering or selling foreign currency futures contracts to the general public. Over

the past several years, the CFTC has successfully brought actions against wrongdoers who lured customers by claims that one can earn large profits trading foreign currency contracts without much risk or by acting as a highly-paid "account executive" trading foreign currency for customers.

Distinguishing Between the Legitimate and Fraudulent Currency Markets

Foreign currency futures contracts may be legitimately traded either on a recognized exchange or in the "interbank market," which generally involves trading between large institutions such as banks and corporations, rather than individual or retail customers. Fraudulent currency trading firms often tell customers that their trading is done in the "interbank market." Be wary of any firm that claims that you can or should trade in the "interbank market" or that it can or will do so on your behalf. Your losses can be very large in a single day. Companies that tell you otherwise may well be engaged in illegal schemes.

Fraudulent Currency Trading Companies

If you are solicited by a company that claims to trade currencies and ask you to commit funds for those purposes, you should be very careful. Watch for the warning signs listed below, and take the following precautions before placing your funds with any currency trading company.

- 1. Stay Away From Opportunities That Sound Too Good To Be True.** - Always remember that there is no such a thing as a "free lunch," and get-rich-quick schemes, including those involving foreign currency trading, tend to be frauds. Be especially cautious if you have acquired a large sum of cash recently and are looking for a safe investment vehicle. In particular, retirees with access to their retirement funds may be attractive targets for fraudulent operators. Getting your money back once it is gone can be difficult or impossible.

2. Avoid Any Company that Predicts or Guarantees Large Profits

– Be wary of companies that guarantee profits or assure a certain percentage of the profits. The following are examples of statements made by fraudulent currency traders: “Whether the market moves up or down, in the currency market you will make a profit.”

“Expect returns of 35-76 percent.”

“We guarantee you will make at least a 30-40% rate of return within two months.”

3. Stay Away From Companies That Promise Little or No Financial Risk

– Be suspicious of companies that downplay risks or state that written risk disclosure statements are routine formalities imposed by the government. The currency futures markets are not the place to put any funds that you cannot afford to lose. For example, retirement funds should not be used for currency trading. You can lose most or all of those funds very quickly trading foreign currency futures contracts. Therefore, beware of companies that make the following types of statements.

“You take only as much risk as you see fit.”

“With a \$10,000 deposit, the maximum you can lose is \$200 to \$250 per day.”

4. Don't Trade on Margin Unless You Understand What it Means

– Many currency traders ask customers to give them money known as “margin,” often sums in the range of \$1,000 to \$5,000. However, those amounts, which are relatively small in the currency markets, actually control far larger dollar amounts of trading, a fact that is poorly explained to customers. You need to be aware of an important fact – margin trading can make you responsible for dollar losses that greatly exceed the margin amount you deposited. Do not trade on margin unless you fully understand what you are doing and

are prepared to accept losses that exceed the margin amounts you paid.

5. **Be Wary of Sending or Transferring Cash on the Internet, By Mail, or Otherwise** – It costs an Internet advertiser just pennies per day to reach a potential audience of millions of persons, and phony currency trading firms have seized upon the Internet as an inexpensive and effective way of reaching a large pool of potential customers. Be especially alert to the dangers of trading on-line; it is very easy to transfer funds on-line, but can often be impossible to get them refunded. Many companies offering currency trading on-line are not located within the United States and may not display an address or any other information identifying their nationality on the Web site. Be aware that if you transfer funds to those foreign firms it may be very difficult or impossible to recover your funds.

6. **Prior to Trading, Contact the Authorities** – Prior to trading, you should check with law enforcement agencies, including your state's Attorney General's Office and Consumer Protection Bureau. Telephone numbers for these offices, are listed in the state listings of your telephone book. In Addition, you should check with the state authorities and the Better Business Bureau (BBB) in the community where the company is located. Keep in mind, though, that this is no a foolproof means of detecting fraud – complaints often come in to these agencies months after the fraud has occurred, and it may be too soon for the company's victims to understand that they have been defrauded or to register complaints with the BBB or other authorities.

Call the National Futures Association (NFA) at (800) 621-3570 and ask whether the company and the individuals who work for it are registered with the NFA or the CFTC and whether any of them has a disciplinary history, current, or prior legal judgements. Persons and companies conducting currency

frauds are often unregistered and will not necessarily appear in the NFA's records.

If you encounter suspicious currency trading activity that may be harmful to the public; please call the NFA at the number at the number above, or call, write or e-mail the CFTC at the number or addresses below.

- 7. Currency Scams Often target Members of Ethnic Minorities** – Some currency trading scams target potential customers in ethnic communities, most particularly persons in the Russian, Chinese, and Indian immigrant communities, through advertisements in ethnic newspapers and television “infomercials.” Many such advertisements offer so-called “job opportunities” for “account executives” to trade foreign currencies. Be aware that all the “account executives” they hire are expected to use their own money for currency trading, as well as to recruit their family and friends to do likewise. What appears to be a promising job opportunity is another way many of these companies lure customers into parting with their cash.
- 8. Be Sure You Get the Company's Performance Track Record** – Get as much information as possible about the firm's or individual's performance record on behalf of other clients. It may be difficult to do this. While the firm or broker is not required to provide this information, you should be wary of any person who is not willing to do so or who provides you with incomplete information. However, keep in mind that, even if you do receive a glossy brochure of sophisticated-looking charts, the information they contain might be false.
- 9. Don't Deal With Anyone Who Will Not Give You Their Background** – Get the background of the persons running or promoting the company, if possible. Do not rely solely on oral statements or promises from the firm's employees. Ask all the information in written form. Plan to do a lot of checking of any information you receive to be sure that the company is and

does exactly what it says. If you cannot satisfy yourself that the persons with whom you are dealing are completely legitimate and above-board, the wisest course of action is to avoid trading foreign currencies through those companies.

For More Information and Contacts

General information on the commodity futures markets and the CFTC are available through the World Wide Web. Members of the public may report suspected wrongdoing to the CFTC's Web site at www.cftc.gov. You also can communicate directly with the CFTC's Division of Enforcement via e-mail at enforcement@cftc.gov. Customers may also write or call the US Commodities Futures Trading Commission, Division of Enforcement, Three Lafayette Centre, 1155 21st Street, NW, Washington DC 20581, (202) 418-5320.

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For More Information

Department of Commerce & Consumer Affairs
Business Registration Division
1010 Richards Street
Honolulu, Hawaii 96813
(808) 586-2740
(808) 586-3976

